University of Idaho

Financial Statements for the Years Ended June 30, 2003 and 2002 and Independent Auditors' Reports

UNIVERSITY OF IDAHO

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INDEPENDENT AUDITORS' REPORT

To the Board of Regents of the
University of Idaho:

We have audited the accompanying statements of net assets of the University of Idaho (the "University") as of June 30, 2003 and 2002, and the related statements of revenues, expenses and changes in net assets and of cash flows for the years then ended. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of the University of Idaho at June 30, 2003 and 2002, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis listed in the table of contents is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. This supplementary information is the responsibility of the University's management. We have applied certain limited procedures which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2003 on our consideration of the University's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Deloitte & Touche LLP

October 14, 2003

Deloitte
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Tohmatsu

UNIVERSITY OF IDAHO

MANAGEMENT'S DISCUSSION AND ANALYSIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2003

The University of Idaho (the "University") is a doctoral-research extensive land-grant institution, with the principal responsibility for research and the granting of the Ph.D. degree in Idaho. The University serves state, national and international communities by providing academic instruction, conducting research that advances fundamental knowledge and by disseminating this knowledge to the people of Idaho. In addition to its main campus in Moscow, the University has instructional centers in Coeur D'Alene, Boise, Twin Falls and Idaho Falls as well as research and extension centers located across the state.

USING THE ANNUAL FINANCIAL REPORT

This report includes management's narrative description of the University's financial condition, results of operations and cash flows. Under Governmental Accounting Standards Board ("GASB") guidance it is a required component of an annual financial report prepared in accordance with accounting principles generally accepted in the United States of America. The discussion is designed to assist readers in understanding the accompanying financial statements through an objective and easily readable analysis of the University's financial activities, based on currently known facts and conditions.

The discussion and analysis that follows provides an overview of the University's financial activities for the fiscal year ended June 30, 2003 along with comparable data from the fiscal year ended June 30, 2002. The financial statements have been prepared in accordance with GASB Statement No. 35, Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities. Three financial statements (the Statement of Net Assets; the Statement of Revenues, Expenses and Changes in Net Assets; and the Statement of Cash Flows) are designed to simply present the University's financial information. They are prepared using the accrual basis of accounting, whereby revenues are recognized when services are provided and expenses are recognized when goods or services are received, regardless of when cash is exchanged.

MANAGEMENT'S DISCUSSION AND ANALYSIS AS OF AND FOR THE YEAR ENDED JUNE 30, 2003

Statement of Net Assets

The statement of net assets presents the assets, liabilities, and net assets of the University as of the fiscal year end. This is a "snapshot" financial statement and presents end-of-year data concerning assets (current and noncurrent), liabilities (current and noncurrent), and net assets (assets minus liabilities).

From the data presented, readers are able to determine the assets available to continue the operations of the University. They are also able to determine how much the University owes vendors, investors, and lending institutions. Finally, it provides a picture of the net assets (assets minus liabilities) and their availability for expenditure by the University.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the institution's equity in property, plant and equipment owned by the University. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The corpus of nonexpendable restricted resources is only available for investment purposes. Expendable restricted net assets are available for expenditures by the University but must be spent for purposes as determined by donors and/or external entities that have place, time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the University for any lawful purpose of the institution.

Condensed Statements of Net Assets
As of June 30, 2003 and 2002

	2003	**2002**	**Change**
Assets:			
Current assets	$ 48,190,758	$ 51,799,128	$ (3,608,370)
Property, plant and equipment, net	297,203,603	276,989,121	20,214,482
Other noncurrent assets	123,939,787	132,364,686	(8,424,899)
Total assets	469,334,148	461,152,935	8,181,213
Liabilities:			
Current liabilities	44,743,461	42,168,665	2,574,796
Noncurrent liabilities	140,058,796	138,847,037	1,211,759
Total liabilities	184,802,257	181,015,702	3,786,555
Net assets:			
Invested in capital assets, net of related debt	173,525,393	170,707,263	2,818,130
Restricted nonexpendable	70,746,186	70,173,559	572,627
Restricted expendable	21,610,103	16,869,347	4,740,756
Unrestricted	18,650,209	22,387,064	(3,736,855)
Total net assets	284,531,891	280,137,233	4,394,658
Total liabilities and net assets	$469,334,148	$461,152,935	$ 8,181,213

Current assets include the University's cash, accounts receivable, grants and loans receivable, inventories, and prepaid expenses expected to benefit the University within one year. Accounts, grants and loans receivable result primarily from student accounts and from sponsored projects which are payable on a cost-reimbursement basis. Inventories include book and medical supplies from auxiliary operations and supplies for resale in other University departments.

Property, plant, and equipment, net are values related to new housing construction in progress, library materials, furniture and equipment, and the recognition of buildings and improvements. Equipment acquisitions related largely to the University's research and instruction programs and included several acquisitions of scientific equipment.

Other noncurrent assets include endowment fund assets, student loans receivable, and investments expected to mature over a period greater than one year.

Current liabilities include payroll and related liabilities, amounts payable to suppliers for goods and services received, cash received for which the University has not yet earned the related revenue, and debt principal payments due within one year.

Amounts invested in capital assets, net of related debt, consist of the historical acquisition value of capital assets, reduced by both accumulated depreciation expense charged against assets and debt balances related to capital assets.

Restricted, expendable net assets represent balances that may be expended by the University, but only in accordance with the restrictions imposed upon the University by an external party, such as a donor or legislative mandate. The University's most significant restricted, expendable balance relates to funds held by trustees in accordance with bond covenants, which may only be expended for the renewal and replacement of assets whose revenues are pledged as security for repayment of debt.

Restricted, non-expendable balances must be held in perpetuity, and include endowment principal as well as the University portion of student loans receivable under the Federal Perkins Loan program.

Unrestricted net assets may be designated for specific purposes by action of management or the Board of Regents, or may otherwise be limited by contractual agreements with outside parties. Substantially all unrestricted net assets are designated for specific purposes as described in the notes to the financial statements, and include funds accumulated for contractual payments such as debt service and grant-funded employee termination payouts, funds earmarked for facility renewal and replacement and student organization funds.

Significant Changes in the Statement of Net Assets

- Cash and cash equivalents increased $15.4 million since the University increased its liquidity during fiscal year 2003.

- Investments at market decreased $6.3 million due to conversions to cash offset by unrealized gains of investments.

- Other current assets decreased $7.9 million as a result of a $1.9 million note pay-off from the University of Idaho Foundation and the refinancing of a $6 million note payable to noncurrent due from the University of Idaho Foundation.

- Repurchase agreements decreased $19.1 million due to actual expenses being incurred on the 2001 University of Idaho Housing Project.

- Other noncurrent assets increased $8.1 million as a result of refinancing a $6 million note payable from the University of Idaho Foundation and the execution of an additional $2 million note payable from the University of Idaho Foundation.

- Noncurrent accrued salaries and benefits payable decreased $2.2 million since a portion of the University's Voluntary Separation Retirement Opportunity Program ("VSROP") payment for the program that becomes due in fiscal year 2004 was moved to current accrued salaries and benefit payable. The payment for the program during fiscal year 2003 was $1.4 million.

- Notes and bonds payable increased $3.4 million as a result of issuing new debt for $19.5 million which was partially offset by the payments on and refunding of older debt of $16.1 million.

Statement of Revenues, Expenses, and Changes in Net Assets

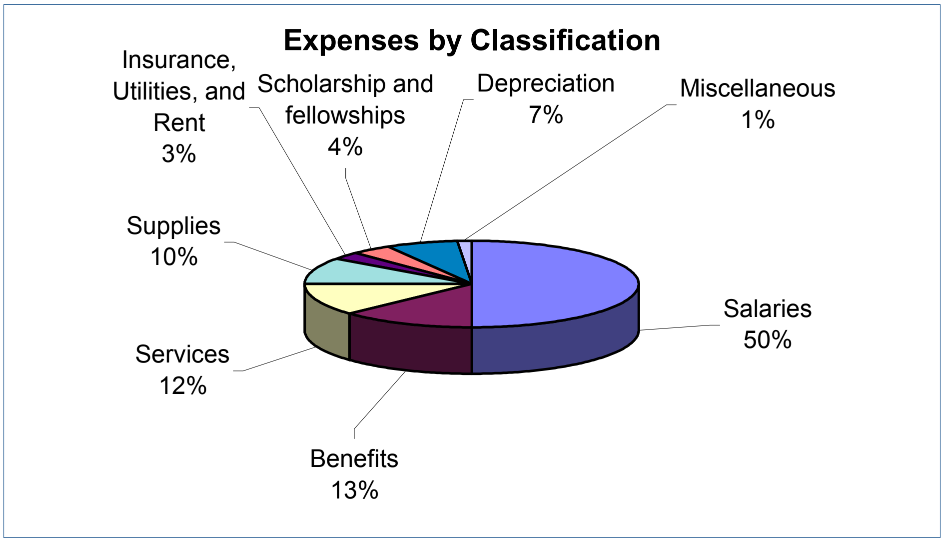
The statement of revenues, expenses and changes in net assets presents the revenues earned and expenses incurred during the year, classifying activities as either "operating" or "nonoperating." This distinction results in operating deficits for those institutions that depend on State aid and gifts**,** because the GASB 35 reporting model classifies state appropriations and gifts as nonoperating revenue. The utilization of capital assets is reflected in the financial statements as depreciation expense, which allocates the cost of assets over their expected useful lives.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets
For the Years Ended June 30, 2003 and 2002

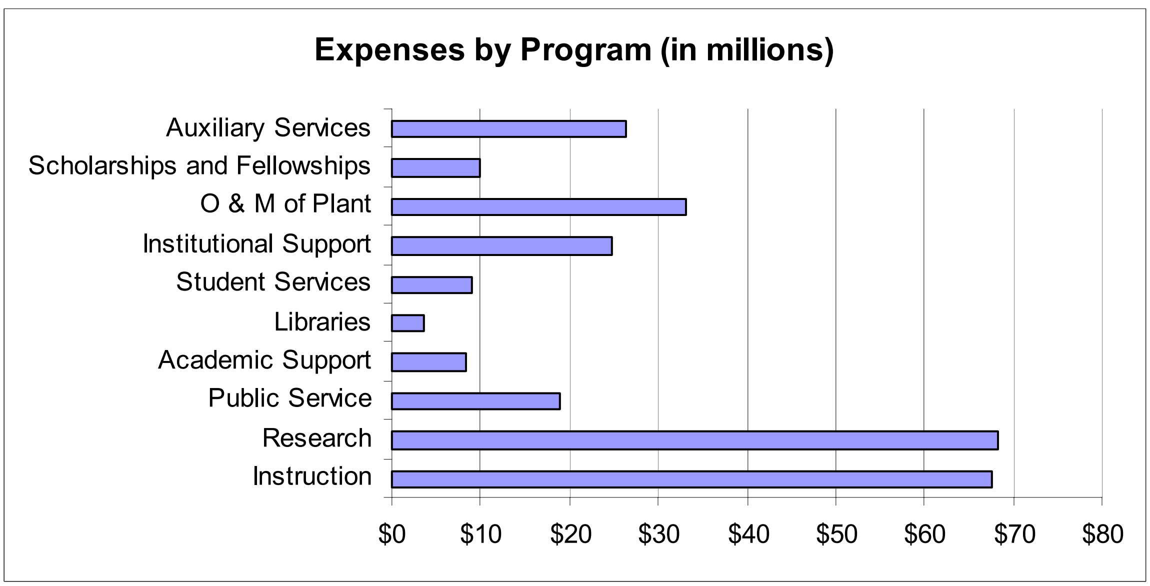
	2003	2002	Change
Operating revenues	$ 149,673,958	$ 132,333,994	$ 17,339,964
Operating expenses	270,024,502	272,889,699	(2,865,197)
Operating loss	(120,350,544)	(140,555,705)	20,205,161
Nonoperating revenues, net	119,771,563	127,281,352	(7,509,789)
Loss before other revenues and expenses	(578,981)	(13,274,353)	12,695,372
Other revenues and expenses	4,973,639	18,868,315	(13,894,676)
Increase in net assets	4,394,658	5,593,962	(1,199,304)
Net assets—beginning of year	280,137,233	274,543,271	5,593,962
Net assets—end of year	$ 284,531,891	$ 280,137,233	$ 4,394,658

Operating revenues: Operating revenues are generated through providing services to the various customers and constituencies of the University. Operating revenues include tuition and fees, grant and contract revenues, and sales and service revenue generated by student housing, bookstores, and other enterprises. Student enrollment drives a large portion of operating revenues. Trends indicate that in the future a greater proportion of revenues will be obtained from students and other sources to offset a proportional decrease in available state funding.

Operating expenses: As shown below, a significant portion of the University's expenses relate to employee compensation and benefits. This relationship is expected to continue, and the proportion may grow as compensation, insurance and other payroll-related costs increase. Due to the volatility of the utilities industry, utilities and plant-related expenses may fluctuate. Additionally, a concerted effort is being made to ensure access to all qualified applicants through endowed scholarships; as such, financial aid expenses are expected to increase.



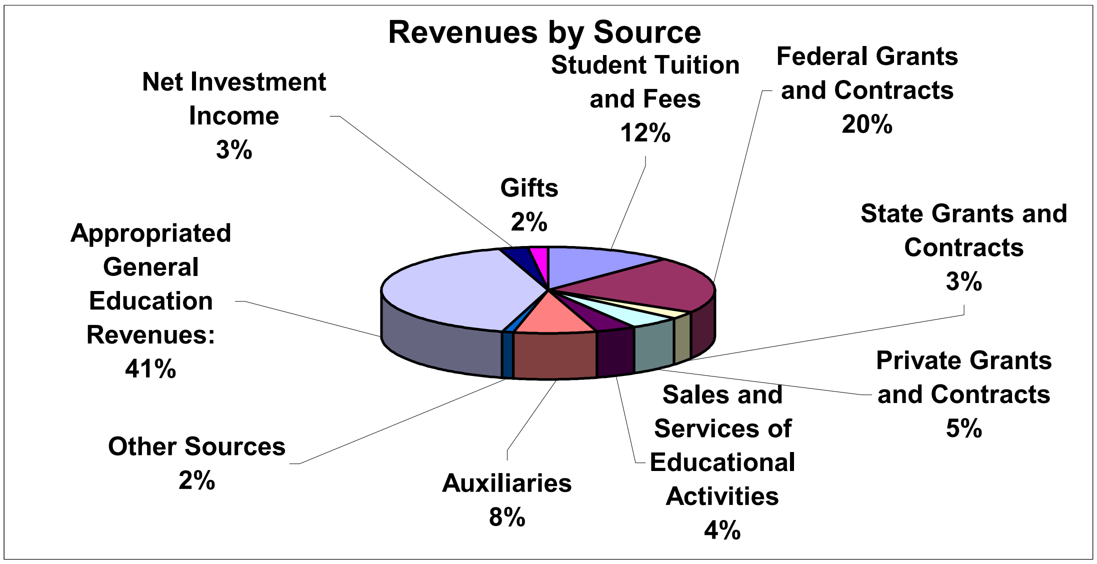
As illustrated in the graph below, instruction and research activities together constitute nearly half the University's expenses. This is the first year that research expenditures have exceeded instructional expenses. The cost of investing in the operation and maintenance of plant is the 3rd largest expense category of the University. The costs of providing auxiliary services, consisting largely of dining and residence hall operations, make up the 4th largest cost category.



Nonoperating revenues: Like most public institutions, the University receives significant nonoperating revenues, including state appropriations, which offset the loss generated by operating activities. The operating loss for the years ending June 30, 2003 and 2002 was $120.4 million and $140.6 million, respectively, and was offset by $119.8 million and $127.3 million in net non-operating revenues, principally comprised of $75.1 million and $82.4 million in state appropriations, $8.9 million and $9.6 million in land grant income, $28.5 million and $29.5 million in other state appropriations, $5.5 million and $7.4 million in gifts, and $7.7 million and $8.4 million in investment income**,** offset by $5.6 million and $4.9 million in interest expense.

Other revenues and expenses: Other revenues and expenses include assets contributed to the University from increased investments in its infrastructure, as well as capital asset contributions from other entities including the state's permanent building fund.

The following graph illustrates operating revenue, nonoperating revenue, and other revenues by source for fiscal year 2003:



Significant Changes in the Statement of Revenues, Expenses, and Changes in Net Assets

Operating revenues increased by $17.3 million primarily due the following:

- Student tuition and fees increased $3 million due to increased enrollments and increases to the fee structure.
- Federal grants and contracts increased $12.4 due to the University's success in attracting federally sponsored research dollars.
- Likewise, private grants and contracts increased $1.9 million due to a focused effort by the University to grow its research programs.

Operating expenses increased $2.9 million primarily due to the following:

- Expenses for services increased $7.7 million as a result of increases in grants and contracts activities.
- Supplies decreased $3.9 million as a result of a decrease in state funding.

- Depreciation expense increased $3.8 million as the University continues to depreciate assets in accordance with GASB 35.

- Miscellaneous expenses decreased $6.9 million because the obligations for the Voluntary Separation and Retirement Opportunities Program (VSROP) were recognized in fiscal year 2002.

- Expenses for salaries and benefits decreased $4.8 million as a result of no increase in salary percentage and a decrease in fulltime employees during fiscal year 2003.

Nonoperating revenues decreased $7.5 million primarily due to the following:

- Appropriated general education revenues decreased $9 million primarily due to a beginning base budget holdback and an additional 3% reversion of state general account funding.

- Gift income decreased $2.0 million primarily due to the rate of completion of gift-funded building projects and a resulting decrease in transfers of building funds from gifts in 2003.

Other revenues and expenses decreased by $13.9 million primarily due to a decrease in capital appropriations of $15.7 million as construction activities sponsored with Department of Public Works funding decreased.

Statement of Cash flows

The statement of cash flows presents detailed information about the cash activity of the University during the year. The statement is divided into five parts. The first part deals with operating cash flows and shows the net cash used by the operating activities of the University. The second section reflects cash flows from noncapital financing activities. This section reflects the cash received and spent for nonoperating, noninvesting and noncapital financing purposes. The third section deals with cash flows from capital and related financing activities. This section deals with the cash used for the acquisition and construction of capital and related items. The fourth section reflects the cash flows from investing activities and shows the purchases, proceeds and interest received. The fifth section reconciles the net cash used in operating activities to operating income or loss reflected on the statement of revenues, expenses, and changes in net assets.

Condensed Statements of Cash Flows
For the Years Ended June 30, 2003 and 2002

	2003	2002	Change
Net cash and cash equivalents provided by (used in):			
Operating activities	$(101,143,989)	$(121,887,866)	$ 20,743,877
Noncapital financing activities	117,799,894	131,762,765	(13,962,871)
Capital and related financing activities, net	(37,195,274)	4,827,691	(42,022,965)
Investing activities	36,019,447	(12,895,876)	48,915,323
Net Increase in Cash	15,480,078	1,806,714	13,673,364
Cash and cash equivalents—beginning of the year	22,586,273	20,779,559	1,806,714
Cash and cash equivalents—end of year	$ 38,066,351	$ 22,586,273	$ 15,480,078

Operating activities used $101.1 million and 121.9 million in cash for the year ended June 30, 2003 and 2002, respectively. The decrease in cash used in operating activities was primarily the result of increases in student tuition and fee revenue and grants and contracts revenue.

Noncapital financing activities provided $117.8 million and $131.8 million in cash for the years ended June 30, 2003 and 2002, respectively. The decrease primarily resulted from decreased state appropriations.

Capital and related financing activities used $37.2 million of cash during the year ended June 30, 2003, which is $42 million more than fiscal year 2002. The change resulted primarily from additional current year payments on debt and less additional borrowings.

Investing activities provided $36 million of cash during the year ended June 30, 2003, which is $48.9 million more than fiscal year 2002. The change resulted primarily from fewer investments purchased.

CAPITAL ASSET AND DEBT ADMINISTRATION

The University issued new bonds in the amount of $17,585,000 during the year to provide funds for the following purposes:

(i) Finance the cost of renovating and equipping certain research facilities on the University's campus (the "Research Facilities").

(ii) Refund a portion of the University's bank line-of-credit for a borrowing incurred for improvements to research facilities.

(iii) Provide funds to currently refund the University's outstanding Facility Refunding and Improvement Revenue Bonds, Series 1994, in the principal amount of $8,335,000 (the "1994 Facility Refunding Bonds') and Student Building Fee Refunding Revenue Bonds, Series 1994, in the principal amount of $3,905,000 (the "1994 Building Fee Refunding Bonds").

ECONOMIC OUTLOOK

The State of Idaho is currently experiencing some economic uncertainty, as is the rest of the nation. As with any public institution, the University is dependent in large part upon state appropriated funding. The state's fiscal year 2004 General Fund budget assumes a 4.3% rate of revenue growth, and thus far revenue collections are keeping pace with that projection. However, a 1% increase to the sales tax will sunset in the future, and this will impact current collection rates without changes in other revenue categories.

Fiscal pressures on budgets will continue to be evident throughout the next budget cycle. The University continues to combine spending reductions with increased student revenues to maintain quality programs in light of flat or potentially decreased state funding.

University management is emphasizing accountability and stewardship of the University's resources, with priority placed on maintaining excellence in the programs offered. University management will continue to determine the proper balance between spending cuts and revenue increases to ensure that quality programs remain, while access to the University is not unduly limited by the cost of attendance.

UNIVERSITY PLACE IN BOISE

In January of 2000, the University of Idaho Foundation purchased property in downtown Boise for the purpose of establishing a University Place development. During the design stage of the project, the University of Idaho expended $8,059,122 from an agency account over a three-year period. The University of Idaho Foundation has agreed to reimburse the University through two separate note agreements. The detail for each note is described below:

	Amount	Dated Date	Maturity Date	Interest Rate
Note 1	$ 6,028,925	October 14, 2003	December 31, 2004	Wells Fargo Sweep Rate + 2%
Note 2	$ 2,030,198	October 14, 2003	December 31, 2005	1%

During the fiscal year 2003, the University entered into two one-year operating leases for parking space and office space at the Idaho Water Center. The parking space lease requires a payment of $350,000 on July 31, 2004 with the annual lessee option to renew the lease until July 31, 2033. The office space lease requires a payment of approximately $1,170,000 on July 31, 2004; this represents a payment for an occupancy period of six months since the University will not move into the Idaho Water Center until Fall 2004. The University has an annual option to renew the lease until June 30, 2043, with the first full annual payment of approximately $2,400,000 due on July 31, 2005.

UNIVERSITY OF IDAHO

STATEMENTS OF NET ASSETS
JUNE 30, 2003 AND 2002

ASSETS	2003	2002
CURRENT ASSETS:		
Cash and cash equivalents	$ 21,318,971	$ 18,976,027
Student loans receivable	1,785,359	1,467,309
Accounts receivable and unbilled charges, less allowance for doubtful accounts of $253,200 and $249,300	20,687,865	20,520,930
Due from state agencies	150,850	112,360
Interest receivable	406,491	464,983
Inventories	1,902,279	1,890,234
Investments		22,765
Repurchase agreements held in trust	1,528,559	
Other current assets	410,384	8,344,520
Total current assets	48,190,758	51,799,128
NONCURRENT ASSETS:		
Restricted cash and cash equivalents	16,747,380	3,610,246
Student loans receivable, less allowance for doubtful loans of $1,146,667 and $1,200,177	9,465,881	9,230,857
Accounts receivable and unbilled charges	27,272	130,694
Interest receivable	462,673	467,234
Investments	8,022,965	14,350,413
Investments held in trust	63,865,800	64,691,912
Repurchase agreements	13,292,206	32,388,424
Repurchase agreements held in trust		3,404,868
Installment contracts receivable	1,241,700	1,320,425
Deferred bond financing costs	2,177,621	2,210,386
Property, plant and equipment, net	297,203,603	276,989,121
Other noncurrent assets	8,636,289	559,227
Total noncurrent assets	421,143,390	409,353,807
TOTAL ASSETS	$ 469,334,148	$ 461,152,935

See notes to financial statements.

LIABILITIES	2003	2002
CURRENT LIABILITIES:		
Accounts payable and accrued liabilities	$ 9,581,724	$ 9,944,138
Accrued salaries and benefits payable	22,338,440	20,481,245
Trust earnings payable to trust beneficiaries	10,671	387,232
Accrued interest payable	1,716,953	1,693,176
Deposits	571,103	431,731
Deferred revenue	6,035,562	4,412,987
Funds held in custody for others	409,782	420,937
Obligations under capital leases	291,037	347,632
Notes and bonds payable	3,752,633	4,010,524
Split interest agreements	35,556	39,063
Total current liabilities	44,743,461	42,168,665
NONCURRENT LIABILITIES:		
Accounts payable and accrued liabilities	117,191	39,892
Accrued salaries and benefits payable	2,368,059	4,629,483
Deposits	130,779	105,973
Obligations under capital leases	316,091	569,381
Notes and bonds payable	137,000,984	133,341,740
Split interest agreements	125,692	160,568
Total noncurrent liabilities	140,058,796	138,847,037
TOTAL LIABILITIES	184,802,257	181,015,702
NET ASSETS:		
Invested in capital assets, net of related debt	173,525,393	170,707,263
Restricted for:		
Nonexpendable	70,746,186	70,173,559
Expendable	21,610,103	16,869,347
Unrestricted	18,650,209	22,387,064
TOTAL NET ASSETS	284,531,891	280,137,233
TOTAL LIABILITIES AND NET ASSETS	$ 469,334,148	$ 461,152,935

UNIVERSITY OF IDAHO

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
OPERATING REVENUES:		
Student tuition and fees (net of scholarship discounts and allowances of $15,383,166 and $12,790,806)	$ 32,538,158	$ 29,492,409
Federal appropriations:		
Agriculture research	2,005,081	2,018,327
Agriculture extension	2,204,092	2,085,062
Federal grants and contracts	55,246,254	43,360,349
State and local grants and contracts	7,540,168	8,518,770
Private grants and contracts	13,753,940	11,795,626
Sales and services of educational activities	10,637,434	10,410,039
Sales and services of auxiliary enterprises	22,098,680	21,485,404
Interest on loans receivable	196,332	229,263
Other	3,453,819	2,938,745
Total operating revenues	149,673,958	132,333,994
EXPENSES:		
Salaries	135,134,632	137,967,102
Benefits	35,130,015	37,064,879
Services	32,477,873	24,825,805
Supplies	26,578,279	29,714,604
Insurance, utilities, and rent	7,635,130	7,607,802
Scholarships and fellowships	10,372,633	10,013,218
Depreciation	18,982,694	15,090,451
Miscellaneous	3,713,246	10,605,838
Total operating expenses	270,024,502	272,889,699
OPERATING LOSS	(120,350,544)	(140,555,705)
NONOPERATING REVENUES (EXPENSES):		
State appropriations:		
State general account—general education	75,139,200	82,376,099
Endowment income	8,900,513	9,637,150
Other state appropriations	28,466,407	29,532,983
Gifts	5,469,750	7,434,489
Private grants and contracts	78,084	77,598
Gain on sale of investments	667,941	262,921
Net investment income	7,747,752	8,409,993
Change in fair value of investments	(321,708)	(4,515,505)
Interest on capital asset related debt (net of capitalized interest of $1,910,600 and $1,982,740)	(5,612,277)	(4,890,097)
Endowment income distribution	(265,537)	(232,425)
Endowment administrative expense	(490,747)	(540,540)
Other	(7,815)	(271,314)
Net nonoperating revenues	119,771,563	127,281,352

See notes to financial statements.

	2003	2002
LOSS BEFORE OTHER REVENUES AND EXPENSES	$ (578,981)	$ (13,274,353)
OTHER REVENUES AND EXPENSES:		
Capital appropriations	2,101,426	17,861,389
Capital grants and contracts	1,669,545	2,049,005
Capital gifts	446,316	1,543,322
Transfers from Idaho State Board of Education	481,750	
Additions to permanent endowments	59,926	2,202,373
Transfers to University of Idaho Foundation		(4,787,774)
Other additions	214,676	
Total other revenues and expenses	4,973,639	18,868,315
INCREASE IN NET ASSETS	4,394,658	5,593,962
NET ASSETS, BEGINNING OF YEAR	280,137,233	274,543,271
NET ASSETS, END OF YEAR	$ 284,531,891	$ 280,137,233

UNIVERSITY OF IDAHO

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2003 AND 2002

	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:		
Student tuition and fees	$ 33,377,318	$ 29,152,282
Federal appropriations	3,518,311	7,246,024
Grants and contracts	77,386,513	60,993,577
Sales and services of educational activities	10,446,580	10,397,678
Sales and services of auxiliary enterprises	22,423,892	21,217,490
Payments to employees	(169,339,571)	(174,980,314)
Payments to suppliers	(67,209,066)	(61,808,160)
Payments for scholarships and fellowships	(10,372,633)	(10,013,218)
Loans issued to students and employees	(3,453,110)	(2,519,593)
Collections of loans to students and employees	2,754,801	2,578,010
Other payments	(677,024)	(4,151,642)
Net cash used in operating activities	(101,143,989)	(121,887,866)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
State appropriations:		
State general account—general education	75,116,891	82,456,115
Endowment income	8,874,100	10,514,250
Other state appropriations	28,476,639	30,424,381
Gifts	5,469,750	7,444,319
Direct lending receipts	39,061,726	34,829,064
Direct lending payments	(39,061,726)	(34,829,064)
Agency account receipts	7,444,747	9,770,967
Agency account payments	(7,255,352)	(9,978,510)
Additions to permanent endowments	59,926	2,094,725
Payments for endowment operations	(678,985)	(792,532)
Grants and contracts for other than capital purposes	104,879	
Other receipts (payments)	187,299	(170,950)
Net cash provided by noncapital financing activities	117,799,894	131,762,765
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Proceeds from capital debt	19,527,615	41,611,770
Grants and contracts	1,149,595	2,049,005
Capital gifts	251,248	1,375,342
Proceeds from sale of property, plant and equipment	151,690	244,508
Purchases of property, plant and equipment	(34,091,192)	(29,592,952)
Principal paid on capital debt and leases	(16,436,147)	(3,891,086)
Interest paid on capital debt and leases (including capitalized interest of $1,910,600 and $1,982,740)	(7,499,100)	(6,381,595)
Payments for bond issuance costs	(248,983)	(587,301)
Net cash provided by (used in) capital and related financing activities	(37,195,274)	4,827,691

See notes to financial statements.

	2003	2002
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of investments	$ (74,926,525)	$ (112,690,338)
Proceeds from sales and maturities of investments	102,885,643	96,455,185
Investment income	8,233,527	7,048,152
Issuance of long-term loans	(2,080,198)	(3,850,435)
Principle received on notes receivable	1,907,000	141,560
Net cash provided by (used in) investing activities	36,019,447	(12,895,876)
NET INCREASE IN CASH AND CASH EQUIVALENTS	15,480,078	1,806,714
CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR	22,586,273	20,779,559
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 38,066,351	$ 22,586,273
RECONCILIATION OF NET OPERATING EXPENSES TO NET CASH AND CASH EQUIVALENTS USED IN OPERATING ACTIVITIES:		
Operating loss	$ (120,350,544)	$ (140,555,705)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	18,982,694	15,090,451
Changes in assets and liabilities:		
Accounts receivable and unbilled charges, net	(382,682)	(327,091)
Student loans receivable, net	(553,074)	3,313
Interest receivable	58,492	(17,126)
Inventories	(12,045)	(37,449)
Other assets	172,857	390,894
Accrued salaries and benefits payable	987,755	(1,190,039)
Accounts payable and accrued liabilities	(1,809,389)	4,473,491
Deposits	139,372	7,527
Deferred revenue	1,622,575	273,868
Net cash used in operating activities	$ (101,143,989)	$ (121,887,866)
SUPPLEMENTAL DISCLOSURE OF NONCASH TRANSACTIONS:		
Property, plant and equipment acquired through capital lease obligations	$ -	$ 793,299
Notes receivable for construction-in-progress	-	1,241,151
Property, plant and equipment acquired through Department of Public Works' appropriations	2,101,426	17,861,387
Donated assets	-	167,980
Land transfer from Idaho Sate Board of Education	481,750	-

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The University of Idaho (the "University") is a publicly-supported comprehensive land grant institution created in 1889 by a statute of the 15th territorial legislature and is part of the public system of higher education in the State of Idaho. The system is considered part of the State of Idaho financial reporting entity. The Board of Regents, appointed by the Governor and confirmed by the State Senate, directs the University. The significant accounting policies followed by the University are described below to enhance the usefulness of the financial statements to the reader.

***Financial Statement Presentation*—**In June 1999, the Governmental Accounting Standards Board ("GASB") issued Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments.* This was followed in November 1999 by GASB Statement No. 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities.* The State of Idaho and the Idaho public colleges and universities implemented these Statements for the fiscal year ended June 30, 2002.

***Basis of Accounting*—**For financial statement purposes, the University is considered a special-purpose government engaged only in business-type activities. Accordingly, the University's financial statements have been presented using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis, revenues are recognized when earned, and expenses are recorded when an obligation has been incurred. All significant intra-agency transactions have been eliminated.

The University has the option to apply all Financial Accounting Standards Board (FASB) pronouncements issued after November 30, 1989, unless FASB conflicts with GASB. The University has elected to not apply FASB pronouncements issued after the applicable date.

***Cash and Cash Equivalents*—**The University considers all highly liquid investments with a remaining maturity of three months or less at the date of acquisition to be cash equivalents.

***Investments*—**The University accounts for its investments at fair value in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools.* Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of the change in fair value of investments in the statement of revenues, expenses, and changes in net assets.

***Accounts Receivable*—**Accounts receivable consists of tuition and fee charges to students and auxiliary enterprise services provided to students, faculty and staff. Accounts receivable also include amounts due from the federal government, state and local governments, or private sources, in connection with reimbursement of allowable expenditures made pursuant to the University's grants and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

***Student Loans Receivable*—**Loans receivable from students bear interest at rates ranging from 3% to 7% and are generally repayable in installments to the University over a 5- to 10-year period commencing 6 or 9 months from the date of separation from the University. Collections on these student loans are primarily handled through a third party servicer, Academic Management Services ("AMS").

Inventories—Bookstore inventories are valued at retail less gross profit percentages sufficient to reduce inventories to the lower of first-in, first-out (FIFO) cost or market. All other inventories are valued at the lower of FIFO cost or market.

Restricted Cash and Cash Equivalents and Investments—Cash and cash equivalents and investments that are restricted to make debt service payments, maintain sinking or reserve funds, or to purchase or construct capital or other noncurrent assets (except for currently due payments), are classified as noncurrent assets in the statement of net assets.

Property, Plant and Equipment—Property, plant and equipment are stated at cost when purchased or constructed, or if acquired by gift, at the estimated fair market value at the date of gift. For equipment, the University's capitalization policy includes all items with a unit cost of $5,000 or more and an estimated useful life of greater than one year. Renovations to buildings and land improvements that significantly increase the value or extend the useful life of the structure are capitalized. Routine repairs and maintenance are charged to operating expense in the period in which the expense was incurred.

Depreciation is computed using the straight-line, composite method over the estimated useful lives of the assets, generally 40 years for buildings, 20 years for improvements other than buildings, and 10 years for library materials and equipment.

Deferred Revenues—Deferred revenues include amounts received for tuition and fees and certain auxiliary activities prior to the end of the fiscal year but related to the subsequent accounting period. Deferred revenues also include amounts received from grant and contract sponsors that have not yet been earned.

Compensated Absences—Employee vacation and compensatory time pay is accrued at year end for financial statement purposes. Included in the accrued salaries and benefits payable at June 30, 2003 and 2002 is $7,233,179 and $7,093,136, respectively, related to compensated absences earned but unused. This amount is also included as a component of benefits expense in the statement of revenues, expenses, and changes in net assets.

Grants-in-Aid—Tuition and fees revenue include grants-in-aid for faculty and staff benefits charged to the appropriate expenditure programs to which the applicable personnel relate. The total of these waivers for 2003 and 2002 was $576,172 and $472,152.

Noncurrent Liabilities—Noncurrent liabilities primarily include (1) principal amounts of revenue bonds payable, notes payable, and capital lease obligations with contractual maturities greater than one year; and (2) estimated amounts for accrued compensated absences and other liabilities that will not be paid within the next fiscal year.

Net Assets—The University's net assets are classified as follows:

Invested In Capital Assets, Net of Related Debt—This represents the University's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

Restricted—Nonexpendable—Nonexpendable restricted net assets consist of endowment and similar type funds in which donors or other outside sources have stipulated, as a condition of the gift instrument, that the principal is to be maintained inviolate and in perpetuity, and invested for the purpose of producing present and future income, which may either by expended or added to principal.

*Restricted—Expendable—*Restricted expendable net assets include resources in which the University is legally or contractually obligated to spend resources in accordance with restrictions imposed by external third parties.

*Unrestricted—*Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the University, and may be used at the discretion of the governing board to meet current expenses for any purpose. These resources also include auxiliary enterprises, which are substantially self-supporting activities that provide services for students, faculty and staff.

When an expense is incurred that can be paid using either restricted or unrestricted resources, the University's policy is to first apply the expense towards unrestricted resources, and then toward restricted resources.

***Income Taxes*—**The University is excluded from federal income taxes under Section 115(1) of the Internal Revenue Code, per letter dated November 7, 1945. The University is also considered a Section 501(c)(3) corporation via letter from the Internal Revenue Service dated August 29, 1961.

***Classification of Revenues*—**The University has classified its revenues as either operating or nonoperating according to the following criteria:

*Operating Revenues—*Operating revenues include activities that have the characteristics of exchange transactions, such as (1) student tuition and fees, net of scholarship discounts and allowances, (2) sales and services of auxiliary enterprises, (3) most federal, state and local grants and contracts and federal appropriations, and (4) interest on institutional student loans.

Nonoperating Revenues - Nonoperating revenues include activities that have the characteristics of nonexchange transactions, such as gifts and contributions, and other revenue sources that are defined as nonoperating revenues by GASB Statement No. 9, *Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities That Use Proprietary Fund Accounting,* and GASB Statement No. 34, such as state appropriations and investment income.

***Scholarship Discounts and Allowances*—**Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the Statement of Revenues, Expenses, and Changes in Net Assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the University, and the amount that is paid by students and/or third parties making payments on the students' behalf. Certain governmental grants, such as Pell grants, and other federal, state or nongovernmental programs, are recorded as either operating or nonoperating revenues in the University's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the University has recorded a scholarship discount and allowance.

***Segment Reporting*—**The University issues revenue bonds to finance certain activities. The University has deemed it not necessary to report segments on these bond issues, based upon the criteria provided in GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments* and GASB Statement No. 38, *Certain Financial Statement Note Disclosures.*

***Reclassifications*—**Certain reclassifications have been made in the 2002 financial statements to conform to the 2003 presentation.

***New Accounting Standards*—**In May 2002, the GASB issued Statement No. 39, *Determining Whether Certain Organizations Are Component Units.* This Statement amends GASB Statement No. 14, *The Financial Reporting Entity,* to require reporting, as a component unit, an organization that raises and holds economic resources for the direct benefit of a governmental unit. The University has not completed the process of evaluating the impact that will result from adopting this Statement. The University is therefore unable to disclose the impact that adopting this Statement will have on its net assets, revenues, expenditures, and changes in net assets. The requirements of this Statement are effective for the University's fiscal year ending June 30, 2004.

In March 2003, the GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures*. Statement No. 40 amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements.* The objective of this Statement is to update the custodial credit risk disclosure requirements of GASB Statement No. 3 and to establish more comprehensive disclosure requirements addressing other common risks of the deposits and investments of state and local governments. The University has not completed the process of evaluating the impact that will result from adopting this Statement. The requirements of this Statement are effective for the University's fiscal year ending June 30, 2005.

2. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are deposited with various financial institutions. Such deposits for the years ended June 30, 2003 and 2002 are categorized below to give an indication of the level of risk assumed by the University at year end. Category 1 includes deposits that are insured or collateralized with securities held by the University or its agent in the University's name. Category 2 includes uninsured deposits collateralized with securities held by the pledging financial institution's trust department or agent in the University's name. Category 3 includes uninsured deposits which are uncollateralized. Balances of deposits by such categories at June 30 consisted of the following:

	2003	**2002**
Category 1	$ 4,190,732	$ 100,000
Category 2	14,164,238	20,402,136
Category 3	19,711,381	2,084,137
Total	$38,066,351	$22,586,273

Of the cash and cash equivalents reported on the statement of net assets at June 30, 2003 and 2002, $16,747,380 and $3,610,246, respectively, is restricted by donors, granting agencies, or other contractual agreements. Book value of deposits does not materially differ from the bank balance of deposits.

3. INVESTMENTS AND REPURCHASE AGREEMENTS

The general investment policy of the University as adopted by its Board of Regents is that investments in securities are to be made with the objectives of maximizing long-term total return, ensuring safety of principal and providing satisfactory current income. Long-term investments shall be restricted to rated securities traded on standard exchanges of the United States. Temporary investment of cash shall be restricted to:

- Certificates of deposit in major Idaho banking organizations.
- All obligations of the U.S. Government.
- Federal funds bank repurchase agreements.
- Deposits in savings accounts of commercial banks and savings and loan associations in the State of Idaho.
- Commercial paper of prime or equivalent grade.

Repurchase agreements are collateralized by U.S. Government securities held by the pledging financial institution or financial institution's agent in the University's name.

In accordance with established investment policy, the University may invest in various mortgage-backed securities, such as collateralized mortgage obligations. These securities are recorded at fair value in the statement of net assets. Investment income, including change in fair value of investments, is recognized as revenue in the statement of revenues, expenses and changes in net assets.

Investments are held by the University, recorded at fair value, and are generally held until maturity. A total of $77,158,006 and $100,485,204 of these investments were restricted by donors, granting agencies, or other contractual agreements at June 30, 2003 and 2002, respectively.

Investments Held in Trust represent investments in the Endowment Fund which are held in trust by the University of Idaho Foundation, Inc. and investments held in trust in the University's name. These investments consist of corporate debt securities and preferred stock, U.S. Government or government guaranteed securities, common stocks and mutual funds. These investments are either restricted to the purpose established by the donors or restricted by bond indentures or other contractual agreements.

The University's investments described above are categorized below to give an indication of the level of risk assumed by the University at June 30, 2003 and 2002. Category 1 includes investments that are insured or registered, or for which the securities are held by the University or its agent in the University's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the University's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty whether or not in the University's name; or by the counterparty's trust department or agent but not in the University's name.

	2003			
	Investment Risk Category			Total Carrying Amount
	1	2	3	
INVESTMENTS:				
Corporate debt securities and preferred stock	$ 2,628,142	$ -	$ -	$ 2,628,142
U.S. Government or government guaranteed securities	4,833,470			4,833,470
Common Stocks	124,707			124,707
Mutual Funds	436,646			436,646
	$ 8,022,965	$ -	$ -	$ 8,022,965
INVESTMENTS HELD IN TRUST:				
Corporate debt securities and preferred stock	$ 13,794,583	$ -	$ 6,372,468	$ 20,167,051
U.S. Government or government guaranteed securities	5,628,856	$ 1,144,900		6,773,756
Common stocks	36,509,609			36,509,609
Mutual funds	415,384			415,384
	$ 56,348,432	$ 1,144,900	$ 6,372,468	$ 63,865,800
REPURCHASE AGREEMENTS		$ 13,292,206		$ 13,292,206
REPURCHASE AGREEMENTS HELD IN TRUST		$ 1,528,559		$ 1,528,559

	2002			
	Investment Risk Category			Total Carrying Amount
	1	2	3	
INVESTMENTS:				
Corporate debt securities and preferred stock	$ 4,001,221	$ -	$ -	$ 4,001,221
U.S. Government or government guaranteed securities	9,695,998			9,695,998
Common Stocks	180,615			180,615
Mutual Funds	495,344			495,344
	$ 14,373,178	$ -	$ -	$ 14,373,178
INVESTMENTS HELD IN TRUST:				
Corporate debt securities and preferred stock	$ 15,672,489	$ -	$ 6,340,788	$ 22,013,277
U.S. Government or government guaranteed securities	6,892,430	1,143,802		8,036,232
Common stocks	34,180,378			34,180,378
Mutual funds	462,025			462,025
	$ 57,207,322	$ 1,143,802	$ 6,340,788	$ 64,691,912
REPURCHASE AGREEMENTS		$ 32,388,424		$ 32,388,424
REPURCHASE AGREEMENTS HELD IN TRUST		$ 3,404,868		$ 3,404,868

4. ACCOUNTS RECEIVABLE AND UNBILLED CHARGES

Accounts receivable and unbilled charges consisted of the following at June 30:

	2003		2002	
	Current	Noncurrent	Current	Noncurrent
Student tuition and fees	$ 2,343,008	$ -	$ 1,786,939	$ -
Auxiliary enterprises	642,926		1,337,667	
Other activities	2,407,210	27,272	2,761,459	130,694
Payroll accruals	2,694,905		2,890,216	
Federal appropriations	1,449,631		98,416	
Federal financial aid funds	180,649		130,884	
Grants and contracts	11,218,229		11,760,646	
Scholarships and fellowships	4,507		4,003	
	20,941,065	27,272	20,770,230	130,694
Less allowance for doubtful accounts	(253,200)		(249,300)	
Net accounts receivable and unbilled charges	$ 20,687,865	$ 27,272	$ 20,520,930	$ 130,694

5. STUDENT LOANS RECEIVABLE

Student loans made through the Federal Perkins Loan Program (the "Program") comprise substantially all of the loans receivable at June 30, 2003 and 2002. Under this Program, the federal government provides approximately 75% of the funding for the Program with the University providing the balance. The Program provides for cancellation of a loan at rates of 10% to 30% per year up to a maximum of 100% if the participant complies with certain provisions. The federal government reimburses the University for amounts cancelled under these provisions. In the event the University should withdraw from the Program or the government were to cancel the program, the amount the University would be liable for as of June 30, 2003 and 2002 is approximately $9,950,000 and $9,880,000, respectively.

As the University determines that loans are uncollectible and not eligible for reimbursement by the federal government, the loans are written off and assigned to the U.S. Department of Education. The University has provided an allowance for uncollectible loans, which, in management's opinion, is sufficient to absorb loans that will ultimately be written off. At June 30, 2003 and 2002, the allowance for uncollectible loans was $1,146,667 and $1,200,177, respectively.

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment at June 30, 2003 and 2002 consisted of the following:

	2003				
	Balance June 30, 2002	Additions	Transfers	Retirements	Balance June 30, 2003
Property, plant and equipment not being depreciated:					
Land	$ 8,690,629	$ 503,969	$ -	$ (35,000)	$ 9,159,598
Capitalized collections	2,003,387	175,014			2,178,401
Equipment construction in progress	642,683	198,681	(601,879)		239,485
Construction in progress	16,002,520	24,302,329	(11,166,680)	(312,547)	28,825,622
Total property, plant and equipment not being depreciated	$ 27,339,219	$ 25,179,993	$ (11,768,559)	$ (347,547)	$ 40,403,106
Other property, plant and equipment:					
Buildings	$ 295,679,619	$ 3,878,688	$ 8,494,864	$ (4,620,822)	$ 303,432,349
Other improvements	35,412,965	1,580,960	2,671,816	(3,481,704)	36,184,037
Furniture and equipment	55,889,425	6,628,564	601,879	(2,731,398)	60,388,470
Library materials	47,132,725	2,276,518		(710,552)	48,698,691
Total other property, plant and equipment	434,114,734	14,364,730	11,768,559	(11,544,476)	448,703,547
Less accumulated depreciation:					
Buildings	(95,805,788)	(9,547,662)	(28,511)	4,620,822	(100,761,139)
Other improvements	(17,292,379)	(2,383,530)	28,511	3,481,704	(16,165,694)
Furniture and equipment	(34,018,862)	(4,952,110)		2,731,398	(36,239,574)
Library materials	(37,347,803)	(2,099,392)		710,552	(38,736,643)
Total accumulated depreciation	(184,464,832)	(18,982,694)	-	11,544,476	(191,903,050)
Other property, plant and equipment, net	$ 249,649,902	$ (4,617,964)	$ 11,768,559	$ -	$ 256,800,497
Property, plant and equipment summary:					
Property, plant and equipment not being depreciated	$ 27,339,219	$ 25,179,993	$ (11,768,559)	$ (347,547)	$ 40,403,106
Other property, plant and equipment, at cost	434,114,734	14,364,730	11,768,559	(11,544,476)	448,703,547
Total cost of property, plant and equipment	461,453,953	39,544,723	-	(11,892,023)	489,106,653
Less accumulated depreciation	(184,464,832)	(18,982,694)		11,544,476	(191,903,050)
Property, plant and equipment, net	$ 276,989,121	$ 20,562,029	$ -	$ (347,547)	$ 297,203,603

	2002				
	Balance June 30, 2001	Additions	Transfers	Retirements	Balance June 30, 2002
Property, plant and equipment not being depreciated:					
Land	$ 8,422,629	$ 250,000	$ 18,000	$ -	$ 8,690,629
Capitalized collections	1,395,397	631,940		$ (23,950)	2,003,387
Equipment construction in progress	353,838	482,729	(189,391)	(4,493)	642,683
Construction in progress	27,084,441	11,107,377	(19,851,765)	(2,337,533)	16,002,520
Total property, plant and equipment not being depreciated	$ 37,256,305	$ 12,472,046	$ (20,023,156)	$(2,365,976)	$ 27,339,219
Other property, plant and equipment:					
Buildings	$ 250,898,340	$ 26,348,351	$ 18,552,606	$ (119,678)	$ 295,679,619
Other improvements	30,953,322	3,178,484	1,281,159		35,412,965
Furniture and equipment	52,327,096	6,731,744	189,391	(3,358,806)	55,889,425
Library materials	45,338,978	2,375,462		(581,715)	47,132,725
Total other property, plant and equipment	379,517,736	38,634,041	20,023,156	(4,060,199)	434,114,734
Less accumulated depreciation:					
Buildings	(88,973,326)	(6,952,140)	-	119,678	(95,805,788)
Other improvements	(15,853,503)	(1,438,876)			(17,292,379)
Furniture and equipment	(32,711,864)	(4,665,804)		3,358,806	(34,018,862)
Library materials	(35,895,887)	(2,033,631)	-	581,715	(37,347,803)
Total accumulated depreciation	(173,434,580)	(15,090,451)		4,060,199	(184,464,832)
Other property, plant and equipment, net	$ 206,083,156	$ 23,543,590	$ 20,023,156	$ -	$ 249,649,902
Property, plant and equipment summary:					
Property, plant and equipment not being depreciated	$ 37,256,305	$ 12,472,046	$ (20,023,156)	$(2,365,976)	$ 27,339,219
Other property, plant and equipment, at cost	379,517,736	38,634,041	20,023,156	(4,060,199)	434,114,734
Total cost of property, plant and equipment	416,774,041	51,106,087	-	(6,426,175)	461,453,953
Less accumulated depreciation	(173,434,580)	(15,090,451)		4,060,199	(184,464,832)
Property, plant and equipment, net	$ 243,339,461	$ 36,015,636	$ -	$(2,365,976)	$ 276,989,121

In addition to accounts payable for construction in progress, the estimated cost to complete property authorized or under construction at June 30, 2003 is approximately $42,337,000. These costs will be financed by state appropriations, institutional funds, gifts, grants and contracts, the Department of Public Works, and/or long-term borrowing.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consisted of the following at June 30:

	2003		2002	
	Current	Noncurrent	Current	Noncurrent
Operating activities	$ 7,248,018	$ -	$ 8,663,623	$ 39,892
Payments to contractors	2,314,950		1,265,389	
Other activities	18,756	117,191	15,126	
Total accounts payable and accrued liabilities	$ 9,581,724	$ 117,191	$ 9,944,138	$ 39,892

8. ACCRUED SALARIES AND BENEFITS PAYABLE

Accrued salaries and benefits payable consisted of the following at June 30:

	2003		2002	
	Current	Noncurrent	Current	Noncurrent
Payroll and leave payable	$20,077,016	$ -	$19,089,261	
Early retirement program—VSROP	2,261,424	2,368,059	1,391,984	$4,629,483
	$ 22,338,440	2,368,059	$ 20,481,245	4,629,483

9. CAPITAL LEASES

The University has entered into various capital lease agreements covering certain computer system assets. At June 30, 2003 and 2002, assets under capital lease totaled $947,765 and $1,084,857 and are included in furniture and equipment. Future minimum lease obligations under these agreements for the years ending June 30 are as follows:

2004	$ 320,279
2005	300,647
2006	32,081
Total minimum obligations	653,007
Less amount representing interest	(45,879)
Present value of minimum obligations	$ 607,128

10. OPERATING LEASES

The University has entered into various noncancellable operating lease agreements covering certain assets. The lease terms range from 1 to 6 years. The expense for operating leases was $91,840 and $161,754 for the years ended June 30, 2003 and 2002, respectively.

Future minimum lease payments are noncancellable leases at June 30, 2003 are as follows:

2004	$ 133,337
2005	106,983
2006	82,496
2007	68,096
2008	59,943
Total future minimum obligations	$ 450,855

During the fiscal year 2003, the University entered into two one-year operating leases for parking space and office space at the Idaho Water Center. The parking space lease requires a payment of $350,000 on July 31, 2004 with the annual lessee option to renew the lease until July 31, 2033. The office space lease requires a payment of approximately $1,170,000 on July 31, 2004; this represents a payment for an occupancy period of six months since the University will not move into the Idaho Water Center until Fall 2004. The University has an annual option to renew the lease until June 30, 2043, with the first full annual payment of approximately $2,400,000 due on July 31, 2005.

11. NOTES AND BONDS PAYABLE

During the current year, the University issued the Series 2003 Bonds to provide funds to (i) finance the cost of renovating and equipping certain research facilities on the University's campus (the "Research Facilities"), (ii) reimburse a portion of the University's bank line-of-credit for a borrowing incurred for improvements to research facilities, and (iii) refund the University's outstanding 1994 Facility Refunding and Improvement Revenue bonds and the 1994 Student Building Fee Refunding Revenue Bonds, in the principal amounts of $8,335,000 and $3,905,000, respectively.

Notes and bonds payable at June 30 consisted of the following:

Description	Balance Outstanding 2003	Balance Outstanding 2002
Facility Revenue Bonds, Series 1992B, consisting of serial bonds due in the amount of $300,000, plus interest at 6.00% through the year 2002, collateralized by a portion of the Matriculation Fee, other fees, net revenues of the Housing System and other revenues (the "Matriculation Fee System Pledge"). Proceeds were primarily used to construct family student on-campus housing units. The original balance was $8,945,000.	$ -	$ 300,000
Facility Refunding and Improvement Revenue Bonds, Series 1994,consisting of serial bonds that were refunded by the Student Fee Refunding and Revenue Bonds, Series 2003. Proceeds were primarily used to construct student housing and refund previous bonds. The original balance was $11,000,000.		8,335,000
Student Building Fee Refunding Revenue Bonds, Series 1994, consisting of serial bonds that were refunded by the Student Fee Refunding and Revenue Bonds, Series 2003. Proceeds were primarily used to construct student housing and refund previous bonds. The original balance was $6,925,000.		3,905,000
Student Fee Refunding Revenue Bonds, Series 1996, consisting of serial bonds due in annual installments increasing periodically from $500,000 to a maximum of $860,000, plus interest from 5.40% to 5.80% through the year 2013, collateralized by a pledge of the Activity Center Complex Fee and certain other revenues (the "Activity Center Complex Fee Pledge"). Proceeds were used to refund previous bonds. The original balance was $9,285,000.	6,540,000	7,015,000
Student Fee Revenue Bonds, Series 1996, consisting of serial bonds due in annual installments ranging from $410,000 to a maximum of $605,000, plus interest from 5.75% to 5.85% through the year 2011, collateralized by the Matriculation Fee System Pledge. Proceeds were primarily used to acquire real property and construct the telecommunications Infrastructure Project. The original balance was $7,965,000.	4,000,000	4,385,000

(Continued)

Description	Balance Outstanding 2003	2002
Student Fee Refunding Revenue Bonds, System 1997B, consisting of serial bonds due in annual installments increasing periodically from $655,000 to a maximum of $1,220,000, plus interest from 5.0% to 5.70% through the year 2016, collateralized by the Matriculation Fee System Pledge. Proceeds were primarily used to refund previous debt. The original balance was $12,380,000.	$ 11,740,000	$ 12,380,000
Student Fee Revenue Bonds (University Commons Project) Series 1997, consisting of serial bonds due in annual installments commencing in 1999 and increasing periodically from $130,000 to a maximum of $1,650,000, plus interest from a 4.75% to 5.70% through the year 2022, collateralized by the the Activity Center Complex Fee Pledge. Proceeds were primarily used to pay construction costs for the commons. The original balance of $14,100,000.	13,510,000	13,635,000
Student Fee Revenue Bonds (University Commons Supplemental Project) Series 1997, consisting of serial bonds due in annual installments commencing in 2000 and increasing periodically from $165,000 to a maximum of $405,000, plus interest from a 4.50% to 5.35% through the year 2022, collateralized by the Activity Center Complex Fee Pledge. Proceeds were primarily used to pay supplemental construction costs for the Commons. The original balance was $5,620,000.	5,030,000	5,185,000
Student Fee Revenue Bonds (Recreation Center Project), Series 1999, consisting of serial bonds due in annual installments commencing in 2002 and increasing periodically from $475,000 to a maximum of $1,425,000, plus interest from 3.85% to 6.50% through the year 2025, collateralized by a pledge of certain student fees, and certain other pledged revenue. Proceeds were primarily used to pay construction costs on the student recreation facility. The original balance was $20,115,000	19,410,000	19,785,000
Student Fee Revenue Bonds, Series 1999A, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from $40,000 to a maximum of $105,000, plus interest from 3.90% to 5.25% through the year 2025, collateralized by the Matriculation Fee System Pledge. Proceeds were primarily used to refund previous debt. The original balance was $1,470,000.	1,435,000	1,470,000
Student Fee Revenue Bonds, Series 1999B, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from $150,000 to a maximum of $445,000, plus interest from 4.80% to 5.625% through the year 2025, collateralized by the Matriculation Fee System Pledge. Proceeds were primarily used for campus improvement projects. The original balance was $6,150,000.	6,000,000	6,150,000

(Continued)

Description	Balance Outstanding 2003	2002
Student Fee Revenue Bonds, Series 1999C, consisting of serial bonds due in annual installments commencing in 2001 and increasing periodically from $235,000 to a maximum of $515,000, plus interest from 4.55% to 5.70% through the year 2019, collateralized by the Matriculation Fee System Pledge. Proceeds were primarily used for campus improvement projects. The original balance was $6,305,000.	$ 5,655,000	$ 5,880,000
Student Fee Revenue Bonds, Series 1999D, consisting of serial bonds due in annual installments commencing in 2023 and increasing periodically from $1,385,000 to a maximum of $1,630,000, plus interest from 5.85% to 6.00% through the year 2026, collateralized by the Activity Center Complex Fee Pledge. Proceeds were used for repairs on the Student Union Building and the Kibbie Center. The original balance was $6,020,000.	6,020,000	6,020,000
Student Fee Revenue Bonds, Series 2001, consisting of serial bonds due in annual installments commencing in 2005 and increasing periodically from $250,000 to a maximum of $2,125,000, plus interest from 3.50% to 5.40% through the year 2041, collateralized by the Matriculation Fee System Pledge. Proceeds were primarily used to construct student housing and renovate the Vandal Athletic Center. The original balance was $40,930,000.	40,930,000	40,930,000
Student Fee Refunding and Revenue Bonds, Series 2003, consisting of serial bonds due in annual installments commencing in 2003 and increasing periodically from $860,000 to a maximum of $1,525,000 plus interest from 3.00% to 5.25% through the year 2014, collateralized by the Matriculation Fee System Pledge. Proceeds were primarily used to renovate research facilities and repay previous borrowings. The original balance was $17,585,000.	17,555,000	
Other indebtedness, consisting of notes payable with interest rates ranging from 4.75% to 7.62%, due through the year 2019. The original balance was $2,273,241.	1,591,226	1,616,662
	139,416,226	136,991,662
Premium on bonds	1,337,391	360,602
	$ 140,753,617	$ 137,352,264

There are a number of limitations and restrictions contained in the various bond indentures.

Principal and interest maturities on notes and bonds payable for the years ending June 30 are as follows:

	Interest	Principal
2004	$ 7,315,028	$ 3,752,633
2005	7,148,549	4,535,602
2006	6,929,238	4,881,035
2007	6,695,552	5,068,197
2008	6,453,611	5,293,933
2009-2013	28,069,231	28,059,501
2014-2018	20,402,662	27,815,325
2019-2023	13,409,813	24,605,000
2024-2028	7,331,768	14,845,000
2029-2033	4,893,863	6,310,000
2034-2038	3,009,150	8,195,000
2039-2042	665,280	6,055,000
	$ 112,323,745	$ 139,416,226

At June 30, 2003, debt in the amount of $855,000 is considered extinguished through defeasance of prior issues by a portion of current issues. Sufficient proceeds were invested in government securities placed in escrow to assure timely payments of the maturities of those prior issues. Neither the debt nor the escrowed assets are reflected in the University's financial statements.

***Pledged Revenues*—**As stated in the bond descriptions above, the University has pledged certain revenues as collateral for debt instruments. The pledged revenue amounts for the year ended June 30, 2003 and 2002 are as follows:

	2003			
	Matriculation Fee System	Activity Center Fee System	Student Rec Center System	Total
Pledged Revenues	Series TIP 1996, 1997B 1999A, 1999B, 1999C, 2001 and 2003	Series 1996, 1997 Commons, Commons Suppl. and Series 1999D	Student Rec Center Series 1999	
Student matriculation fee	$ 19,016,859	$ -	$ -	$ 19,016,859
Residence hall system	5,538,233			5,538,233
Apartment housing system	2,025,739			2,025,739
Food service (meal plan)	2,912,591			2,912,591
Food service (institutional food service system)		411,161		411,161
Bookstore		7,365,943		7,365,943
Parking system	1,918,373			1,918,373
Telecommunications system revenues	3,417,104			3,417,104
Other student fees and tuition	1,165,856	2,681,431	1,655,047	5,502,334
Investment income	129,218	57,281	202	186,701
Other transfers (to Series 1998 TIP and Series 1995 SFR)	210,000			210,000
Total pledge revenues	$ 36,333,973	$ 10,515,816	$ 1,655,249	$ 48,505,038

	2002			
	Matriculation Fee System	Activity Center Fee System	Student Rec Center System	Total
Pledged Revenues	Series 1992A, 1992B FIB 1994, SIB 1994, TIP 1996, 1997A, 1997B 1999A, 1999B, 1999C and 2001	Series 1996, 1997 Commons, Commons Suppl. and Series 1999D	Student Rec Center Series 1999	
Student matriculation fee	$ 14,286,301	$ -	$ -	$ 14,286,301
Residence hall system	4,580,600			4,580,600
Apartment housing system	2,103,555			2,103,555
Food service (meal plan)	3,006,671			3,006,671
Food service (institutional food service system)		505,566		505,566
Bookstore		7,167,101		7,167,101
Parking system	940,566			940,566
Telecommunications system revenues	2,278,838			2,278,838
Other student fees and tuition	6,098,735	2,616,361	1,521,025	10,236,121
Investment income	95,986	1,275	429	97,690
Other transfers (to Series 1998 TIP and Series 1995 SFR)	210,000	159,712		369,712
Total pledge revenues	$ 33,601,252	$ 10,450,015	$ 1,521,454	$ 45,572,721

12. NONCURRENT LIABILITIES

Noncurrent liability activity for years ended June 30, 2003 and 2002 was as follows:

	2003				
	Ending Balance June 30, 2002	Additions	Reductions	Ending Balance June 30, 2003	Amounts due within one year
Bonds and notes payable and capital lease obligations:					
Revenue bonds payable	$ 135,735,602	$ 18,600,710	$ (15,173,921)	$ 139,162,391	$ 3,570,000
Notes payable	1,616,662	926,905	(952,341)	1,591,226	182,633
Capital lease obligations	917,013		(309,885)	607,128	291,037
Total bonds, notes and capital leases	138,269,277	19,527,615	(16,436,147)	141,360,745	4,043,670
Other liabilities:					
Accounts payable and accrued liabilities	39,892	117,191	(39,892)	117,191	
Early retirement accrued liability	6,021,467		(1,391,984)	4,629,483	2,261,424
State teacher loan cancellation deposits	105,973	31,413	(6,607)	130,779	
Split-interest agreements	199,631	1,509	(39,892)	161,248	35,556
Total other liabilities	6,366,963	150,113	(1,478,375)	5,038,701	2,296,980
Total noncurrent liabilities	$ 144,636,240	$ 19,677,728	$ (17,914,522)	$ 146,399,446	$ 6,340,650

	2002				
	Beginning Balance June 30, 2001	Additions	Reductions	Ending Balance June 30, 2002	Amounts due within one year
Bonds and notes payable and capital lease obligations:					
Revenue bonds payable	$ 98,108,141	$40,930,000	$ (3,302,539)	$ 135,735,602	$3,695,000
Notes payable	1,570,245	570,674	(524,257)	1,616,662	315,524
Capital lease obligations	188,004	793,299	(64,290)	917,013	347,632
Total bonds, notes and capital leases	99,866,390	42,293,973	(3,891,086)	138,269,277	4,358,156
Other liabilities:					
Accounts payable and accrued liabilities	121,710	39,892	(121,710)	39,892	
Early retirement accrued liability		6,021,467		6,021,467	1,391,984
State teacher loan cancellation deposits	162,442	27,152	(83,621)	105,973	
Split-interest agreements	5,749,078		(5,549,447)	199,631	39,063
Total other liabilities	6,033,230	6,088,511	(5,754,778)	6,366,963	1,431,047
Total noncurrent liabilities	$ 105,899,620	$48,382,484	$ (9,645,864)	$ 144,636,240	$5,789,203

13. RETIREMENT PLANS

Public Employee Retirement System of Idaho—The Public Employee Retirement System of Idaho (PERSI), a cost-sharing multiple-employer public retirement system, was created by the Idaho State Legislature. The plan provides benefits based on members' years of service, age, and compensation. In addition, benefits are provided for disability, death, and survivors of eligible members or beneficiaries. It is a defined benefit plan requiring that both the member and the employer contribute. Designed as a mandatory system for eligible state employees, the legislation provided for political subdivisions to participate by contractual agreement with PERSI. The benefits and obligations to contribute to the plan were established and may be amended by the Idaho State Legislature. Financial reports for the plan are available from PERSI upon request.

After 5 years of credited service, members become fully vested in retirement benefits earned to date. Members are eligible for retirement benefits upon attainment of the ages specified for their employment classification. For each year of credited service, the annual service retirement allowance is 1.917% or 2.225% (depending upon employee classification) of the average monthly salary for the highest consecutive 42 months.

For the years ended June 30, 2003 and 2002, the required contribution rates as determined by PERSI were 9.77% and 5.86% of covered payroll for the University and employees, respectively. The University's contributions required and paid were $5,053,518, $5,362,184, and $5,127,456 for the years ended June 30, 2003, 2002 and 2001, respectively.

Optional Retirement Plan—Effective July 1, 1990, the Idaho State Legislature authorized the Board of Regents to establish an Optional Retirement Plan (ORP), a defined contribution plan, for faculty and exempt employees. The employee contribution requirement for the ORP is based on a percentage of total payroll. Employer contributions are determined by the State of Idaho.

New faculty and exempt employees hired July 1, 1990 or thereafter automatically enroll in the ORP and select their vendor option. Faculty and exempt employees hired before July 1, 1990 had a one-time opportunity to enroll in the ORP. Enrollees in the ORP no longer belong to PERSI. Vendor options include Teachers Insurance and Annuity Association - College Retirement Equities Fund and Variable Annuity Life Insurance Company.

Participants are immediately fully vested in the ORP. Retirement benefits are available either as a lump sum or any portion thereof upon attaining 62 years of age. The contribution requirement (and amount paid) for the years ended June 30, 2003 and 2002 was $8,589,645 and $8,425,769 which consisted of $4,512,522 and $4,427,976 from the University and $4,077,123 and $3,997,793 from employees. The contributions represented 7.72% and 6.97% of covered payroll for the years ended June 30, 2003 and 2002.

Although enrollees in the ORP no longer belong to PERSI, the University is required to contribute to PERSI 3.03% of the annual covered payroll. These annual supplemental payments are required through July 1, 2015. During the years ended June 30, 2003 and 2002, these supplemental funding payments made to PERSI were $1,768,096 and $1,730,063. This amount is not included in the regular University PERSI contribution discussed previously.

Early Retirement Program—During fiscal year 2002, the University offered the Voluntary Separation and Retirement Opportunities Program (VSROP). The purpose of VSROP was to afford eligible faculty and staff members who desire to leave or retire from the University an opportunity to do so with additional economic incentives. This was a one-time opportunity, and this program is not expected to become an on-going feature of University benefits. The University accepted enrollment in VSROP from February 1, 2002 to April 2, 2002 only. Included in accrued salaries and benefits payable at June 30, 2003 and 2002 is $4,629,483 and $6,021,467 (undiscounted) associated with this program.

Postretirement Benefits Other Than Pensions—In addition to the pension benefits described above, the University provides post-retirement medical, dental and life insurance coverage for life to employees who meet certain age and service requirements. In general, the employee must have completed at least 30 years of credited service or the sum of his/her age and years of credited service must total at least 80 to qualify for this benefit. This benefit was not offered to employees hired on or after January 1, 2002. Employees who do not qualify for this benefit but who do qualify for retirement under PERSI or ORP are eligible to use 50% of the cash value of their unused sick leave to continue their medical insurance coverage through the University. The University partially funds these obligations by depositing a percentage of employee gross payroll into a reserve. This percentage was 1.25% and 0.75% at June 30, 2003 and 2002. The University had expenses totaling $1,333,077 and $656,060 in fiscal 2003 and 2002 to purchase insurance for 700 and 626 retired employees receiving these benefits. As of June 30, 2003 and 2002, approximately $1,417,160 and $2,340,812 is available to fund these obligations. The GASB is studying a new accounting standard that would require the University to record these obligations on an actuarially determined basis. The University intends to hire actuaries to quantify the unrecorded obligations and is reviewing the provisions of its benefit plans. The actuarially determined obligations will likely be significantly higher than the amount currently accrued.

14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATION

For fiscal years prior to 2002, the University reported expenses in functional categories. In order to be consistent with the State of Idaho's reporting method, operating expenses are displayed in their natural classifications for fiscal years 2003 and 2002. The following table shows natural classifications with functional classifications:

	2003								
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Scholarships and Fellowships	Depreciation	Miscellaneous	Operating Expense Totals
Instruction	$ 44,885,041	$10,568,973	$ 6,706,369	$ 3,384,461	$ 332,863	$ 857,071	$ -	$ 755,983	$ 67,490,761
Research	39,218,497	9,496,927	11,185,200	7,142,166	542,094	238,702		552,693	68,376,279
Public services	11,117,560	3,218,877	3,043,438	941,379	254,707	121,830		252,168	18,949,959
Academic support	5,118,504	1,303,163	812,551	610,099	90,842	197,246		178,201	8,310,606
Libraries	2,187,677	684,866	454,107	326,237	35			14,714	3,667,636
Student services	4,479,823	1,388,646	2,511,766	460,651	51,659	36,454		124,962	9,053,961
Institutional support	11,643,343	3,459,408	2,857,383	1,690,303	4,360,597	248,712		652,345	24,912,091
Plant operations	6,878,499	2,546,479	1,193,549	1,539,298	1,501,093		18,982,694	418,028	33,059,640
Scholarships and fellowships	881,726		5,936	61		8,623,227		231,556	9,742,506
Auxiliaries	8,723,962	2,462,676	3,707,574	10,483,624	501,240	49,391		532,596	26,461,063
Total expenses	$135,134,632	$35,130,015	$32,477,873	$26,578,279	$7,635,130	$10,372,633	$18,982,694	$ 3,713,246	$270,024,502

	2002								
	Salaries	Benefits	Services	Supplies	Insurance, Utilities and Rent	Scholarships and Fellowships	Depreciation	Miscellaneous	Operating Expense Totals
Instruction	$ 49,683,952	$13,622,828	$ 6,594,881	$ 4,794,963	$ 330,616	$ 1,658,264	$ -	$ 7,974,608	$ 84,660,112
Research	36,775,134	8,610,526	7,182,055	5,979,868	718,207	27,769		570,789	59,864,348
Public services	11,208,668	3,066,823	2,594,630	1,018,103	206,794	30,736		298,081	18,423,835
Academic support	4,942,371	1,263,883	503,381	762,153	82,749	164,751		229,265	7,948,553
Libraries	2,340,222	719,639	343,397	246,210					3,649,468
Student services	4,488,215	1,329,056	722,812	1,588,026	43,075	37,513			8,208,697
Institutional support	12,009,203	3,498,360	2,292,299	5,021,708	425,140	206,197		152,895	23,605,802
Plant operations	7,288,966	2,567,167	1,461,226	608,251	5,354,223	5,185	15,090,451	997,399	33,372,868
Scholarships and fellowships	800,445		6,471	980		7,650,739		28,660	8,487,295
Auxiliaries	8,429,926	2,386,597	3,124,653	9,694,342	446,998	232,064		354,141	24,668,721
Total expenses	$137,967,102	$37,064,879	$24,825,805	$29,714,604	$7,607,802	$10,013,218	$15,090,451	$10,605,838	$272,889,699

15. ENCUMBRANCES

The accrual basis of accounting provides that expenses include only amounts associated with goods and services received and liabilities include only the unpaid amounts associated with such expenses. Accordingly, \$6,089,958 and \$6,533,301 at June 30, 2003 and 2002 of outstanding purchase orders and purchase commitments are not reported in the financial statements.

16. CONTINGENCIES AND LEGAL MATTERS

Revenue from federal research and service grants includes amounts for the recovery of overhead and other costs allocated to these projects. The University may be required to make refunds of amounts received for overhead and other costs reimbursed as a result of audits by agencies of the federal government. University officials are of the opinion that the effect of these refunds, if any, will not have a significant effect on the financial position of the University.

The University is a defendant in litigation arising from the normal course of operations. Based on present knowledge, the University's administration believes any ultimate liability in these matters will not materially affect the financial position of the University.

17. RELATED ORGANIZATIONS

The University of Idaho Foundation, Inc. (the "Foundation") was established for the purpose of soliciting donations and to hold and manage invested donations for the exclusive benefit of the University. Net assets of the Foundation at June 30, 2003 and 2002 were \$164,086,225 and \$169,673,399, respectively. Of this amount, \$70,181,474 and \$70,173,560 are University assets held and managed in trust by the Foundation and are included in the accompanying financial statements. The remaining net assets of \$93,904,751 and \$99,499,839 of which \$92,208,261 and \$93,994,157 at June 30, 2003 and 2002 are restricted to uses designated by the donors, are owned by the Foundation.

On June 27, 2002 the Foundation executed an uncollateralized promissory note with the University of Idaho for \$6,028,925 due June 30, 2003. Interest is assessed at the Wells Fargo sweep rate plus 2%. On October 14, 2003, the Foundation executed an uncollateralized promissory note extension agreement with the University of Idaho for \$6,028,925 due December 31, 2004 to replace the note executed June 27, 2002. Interest is assessed at the Wells Fargo sweep rate plus 2%. This note is included in other noncurrent assets on the statement of net assets at June 30, 2003. Subsequent to year end, the Foundation paid \$1 million of the balance to the University.

On October 14, 2003, the Foundation executed an uncollateralized promissory note with the University of Idaho for \$2,030,198 due December 31, 2005. Interest is assessed at the rate of 1%. This note is included in other noncurrent assets on the statement of net assets at June 30, 2003.

On January 17, 2002, the University executed a revolving line-of-credit agreement with the Idaho Research Foundation not to exceed \$200,000. The line may be drawn upon quarterly up to and including April 1, 2005. As of June 30, 2003 and 2002, the Idaho Research Foundation Inc. has drawn \$126,000 and \$76,000 on the line-of-credit. Interest of 5% is due annually on the outstanding balance. Payment of all outstanding interest and principal is due June 30, 2005.

The Vandal Boosters, Inc. (the "Boosters") is a fund raising organization that provides financial assistance and services to the University of Idaho intercollegiate athletic department. Contributions received by the University from this organization are recorded as gifts. Unaudited net assets of the Boosters at June 30, 2003 and 2002 were $230,073 and $235,953 of which $750 and $18,763 are restricted to uses designated by the donors. Assets owned by the Boosters are not included in the accompanying financial statements.

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED UPON THE AUDIT PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Regents of the
University of Idaho:

We have audited the financial statements of the University of Idaho (the "University") as of and for the year ended June 30, 2003, and have issued our report thereon dated October 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the University's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of noncompliance that we have reported to the management of the University in a separate letter dated October 14, 2003.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the University's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the University's internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the University in a separate letter dated October 14, 2003.

This report is intended solely for the information and use of the Board of Regents, management, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Deloitte & Touche LLP

October 14, 2003